

UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA

Case No.: 2:20-cv-02035-JAD-NJK

ProDox, LLC,
Plaintiff
v.

Professional Document Services, Inc.,
Defendant

**Findings of Fact, Conclusions of Law, and
Final Judgment Following Bench Trial**

Plaintiff ProDox, LLC sues Professional Document Services, Inc. (PDS) for breaching the 2006 settlement agreement inked by these competing litigation-support-services companies by infringing on ProDox's trademark. Summary-judgment rulings left only liquidated damages for resolution at a non-jury trial. The short bench trial was surprisingly chaotic for such a narrow issue, mainly because the parties had widely disparate views of what was left for the court to decide and had been shouting past each other for years. ProDox was of the misimpression that the court had already made a ruling on how many contract violations it could collect liquidated damages for, so ProDox rested its case without putting on any evidence of the number of violations. For its part, PDS relied on the late-pled affirmative defense that the liquidated damages provision is an unenforceable penalty under Nevada law. In the end, I let ProDox reopen its case and examine PDS's CEO Kyle Lum to establish the violations, and I ordered post-trial briefing on the viability of PDS's unenforceable-penalty defense and the proper calculation of liquidated damages.

With the benefit of those post-trial briefs, I conclude that PDS waived its unenforceable-penalty defense because its failure to raise it in a timely manner materially prejudiced ProDox's ability to obtain and present evidence to prove damages. And applying the liquidated-damages

1 provision, I conclude that ProDox is entitled to an award of \$217,500 based on Lum’s testimony
2 at trial.

3 4 **Background**

5 **I. The 2006 settlement agreement limited PDS’s marketing outside of** 6 **California and contained a negotiated liquidated-damages clause.**

7 ProDox’s CEO Bill Sparks started his litigation-support-services company in 2002,
8 registered the “ProDox” trademark in 2004, and by 2006 was providing services to clients in
9 Arizona, New Mexico, and Nevada.¹ In 2005, ProDox began receiving calls “confusing [it] with
10 PDS,” so ProDox sent PDS a letter demanding it stop using the “ProDoc” name and eventually
11 sued PDS for trademark infringement.² In 2006, the parties resolved their dispute and signed a
12 settlement agreement that prohibits PDS from using the ProDoc mark in any business it conducts
13 outside of the State of California.³

14 Included in that document is a liquidated-damages clause in which ProDox and PDS
15 agreed that, “in the event of any violation of the terms of the permanent injunction in this
16 agreement, PDS will be liable to ProDox for liquidated damages in the amount of . . . \$2,500.00
17 for each violation” and “a one[-]time lump payment of . . . \$15,000.00” for PDS’s “first
18 violation.”⁴ They also “expressly agree[d] that liquidated damages are appropriate and fully
19 justified under the circumstances, that the amounts set forth above are fair and reasonable under
20 the circumstances existing at this time, and that proof of the amount of actual damages would be

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22 ¹ ECF No. 169 at 20:20–23:21.

23 ² *Id.* at 27:16–22.

³ Pl’s Trial Ex. 1 (2006 settlement agreement).

⁴ *Id.* at 3–4.

difficult and burdensome for all concerned.”⁵ Sparks testified that he insisted on the liquidated-damages provision to account for the reputational harm and lost profits that he saw firsthand in the preceding months.⁶ He also averred that, when the parties were negotiating the settlement agreement, his profits from clients varied, ranging from “a couple hundred bucks” for a small job to “thousands” of dollars for a larger one.⁷ Sparks added that, at the time, he believed that the violation amounts contained in the liquidated-damages provision were fair and reasonable amounts to compensate for future harm if PDS violated the injunction.⁸

II. PDS breached the agreement, and this case proceeded to a bench trial on ProDox’s contract-breach damages only.

In 2020, ProDox noticed that PDS started using the name “ProDoc | Kytel” on its website to advertise and conduct business outside of California” “sometime around 2017.”⁹ ProDox then sent PDS a letter demanding that PDS “cease any further use of ProDoc | Kytel . . . on its website and URL . . . [and] immediately add the necessary disclaimer” that PDS is not affiliated with ProDox.¹⁰ ProDox also demanded a full accounting of any business conducted since PDS began using its infringing website[] or any other advertising that used the word [ProDoc] to target business outside of California” so that ProDox could “determine the proper and accurate extent

⁵ *Id.* at 4.

⁶ ECF No. 169 at 44:25–45:17.

⁷ *Id.* at 41:11–42:6.

⁸ *Id.* at 47:23–25.

⁹ ECF No. 122 at 3. Because these facts were only relevant to the liability portion of ProDox’s breach claim and were not at issue at trial, I cite to the summary-judgment order relaying the facts as background only.

¹⁰ *Id.*

1 of [its] damages”¹¹ PDS responded by removing the mark and adding the disclaimer to its
2 website, then it claimed that because it had cured the breach, ProDox was not entitled to any
3 liquidated damages under the settlement agreement.¹²

4 ProDox sued PDS for trademark infringement, unfair competition, bad faith, and breach
5 of contract, seeking *inter alia*, “liquidated damages . . . for each instance” that PDS violated the
6 settlement agreement.¹³ At summary judgment, I concluded that PDS had breached the
7 settlement agreement and that the notice-and-cure clause in the agreement did not prevent
8 ProDox from seeking damages under the liquidated-damages provision.¹⁴ In its response to
9 ProDox’s summary-judgment motion—and for the first time in this litigation—PDS also argued
10 that the liquidated-damages provision is unenforceable because it constitutes a penalty under
11 Nevada law.¹⁵ I ruled that the provision’s language is facially valid but left open the possibility
12 that PDS could show it was unenforceable if the stipulated damages were disproportionate to
13 ProDox’s actual damages.¹⁶ Several months later, ProDox abandoned all claims save for breach
14 of contract with an amended complaint.¹⁷ In its answer to that amended complaint, PDS first
15 pled the unenforceable-penalty defense.¹⁸

16 The November 14, 2023, bench trial was more attorney argument than evidence
17 presentation. PDS pushed its unenforceable-penalty defense and argued that ProDox needed to

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19 ¹¹ *Id.* at 4 (citations omitted).

20 ¹² *See id.* at 7–9.

21 ¹³ ECF No. 1 at 9, ¶ B.

22 ¹⁴ *Id.* at 8–11.

23 ¹⁵ ECF No. 112 at 27.

¹⁶ ECF No. 122 at 13–15.

¹⁷ ECF No. 143.

¹⁸ ECF No. 146.

1 prove that the liquidated damages it was seeking were consistent with its actual damages from
2 PDS's violations of the settlement agreement. ProDox responded with the testimony of its CEO
3 Sparks showing that, at the time of contracting, the negotiated amounts in the provision were fair
4 and reasonable in light of the losses he believed his company would sustain if PDS breached the
5 agreement.¹⁹ ProDox also argued that PDS waived the unenforceable-penalty defense by
6 waiting until summary judgment to raise it and not pleading it in response to the original
7 complaint.²⁰

8 Further confusion came from ProDox's failure to put on evidence of the number of PDS's
9 violations of the settlement agreement so the court could calculate liquidated damages. When
10 ProDox abruptly rested its case without presenting this expected proof, it soon came to light that
11 ProDox's counsel believed that the court had already ruled that ProDox was entitled to collect
12 liquidated damages for a certain number of violations, so ProDox's counsel believed that all that
13 was left to do was some math. But that belief was unreasonable because I had denied summary
14 judgment on contract-breach damages because "ProDox's proffered evidence [wa]s plagued with
15 too many genuine disputes to permit me to summarily adjudicate damages."²¹ And I explicitly
16 stated in that order that "[t]here thus remain too many questions of fact regarding the amount of
17 liquidated damages that ProDox is owed, so I deny summary judgment on the element of
18 damages for the contract breach."²² Nevertheless, I allowed PDS to reopen its case and call to
19 the stand PDS's CEO Kyle Lum to attempt to establish the number of breaches so that liquidated
20 damages could be calculated.

21 ¹⁹ ECF No. 169 at 47:11–25.

22 ²⁰ *Id.* at 92:10–94:15.

23 ²¹ ECF No. 122 at 15.

²² *Id.* at 16.

1 At the end of the bench trial, I ordered the parties to file post-trial briefs addressing three
2 questions:

3 1. Did PDS waive its affirmative defense that the liquidated-damages provision is an
4 unenforceable penalty because it wasn't included in the original set of pleadings?

5 2. Assuming that PDS didn't waive the defense, is the liquidated-damages provision
6 an unenforceable penalty? I also asked the parties to clarify the burdens of proof and persuasion
7 for the unenforceable-penalty defense.

8 3. Assuming that the liquidated-damages provision is enforceable, what evidence
9 should I base the liquidated-damages calculation on?²³

10 Findings of Fact and Conclusions of Law

11 **I. PDS waived its affirmative defense that the provision is an unenforceable penalty.**²⁴

12 All parties agree that PDS raised its unenforceable-penalty defense for the first time in its
13 response to ProDox's summary-judgment motion. That affirmative defense was not pled in
14 PDS's original answer and, as far this court can tell from its thorough review of the record, it was
15 not asserted at any other time until summary judgment. ProDox asked PDS to explain the bases
16 for all of its affirmative defenses during discovery. In response, PDS identified only its defense
17 that PDS's compliance with the settlement agreement's notice-and-cure provision precluded
18 ProDox from relying on the liquidated-damages provision.²⁵

21 ²³ See ECF No. 169 at 150:6–12.

22 ²⁴ At trial, PDS took the position that this unenforceable-penalty theory was not an affirmative
23 defense. It abandoned that position in post-trial briefing and now concedes that it is. ECF No.
173 at 6.

²⁵ Pl's Trial Ex. 4 at 6–9.

1 But after summary judgment, ProDox moved for leave to file an amended complaint to
 2 drop its trademark claims and proceed only on the issue of damages for its breach-of-contract
 3 claim.²⁶ PDS filed an answer to that amended complaint and included its penalty defense
 4 there—for the first time in a responsive pleading.²⁷ At that point, discovery had long since
 5 closed,²⁸ major aspects of the case had been adjudicated, and all that remained was a bench trial
 6 on damages.

7 PDS argues that its late-in-the-game pleading was permitted as a matter of course
 8 because it was in response to ProDox’s amended complaint, shielding that defense from any
 9 further scrutiny.²⁹ ProDox contends that a defendant can add affirmative defenses that late in
 10 litigation only if it can show that the plaintiff isn’t prejudiced by the addition. And it argues that
 11 it was prejudiced by PDS’s eleventh-hour assertion because ProDox didn’t seek discovery to
 12 address that defense and the window of opportunity to do so had closed years earlier.

13 “While state law defines the nature of [affirmative] defenses, the Federal Rules of Civil
 14 Procedure provide the manner and time in which defenses are raised and when waiver occurs.”³⁰
 15 FRCP 8 requires a defendant responding to a pleading to “affirmatively state any avoidance or
 16 affirmative defense” it has to a plaintiff’s complaint.³¹ The Ninth Circuit has permitted

18 ²⁶ ECF No. 128 (motion for leave to amend); ECF No. 142 (order granting leave to amend); ECF
 19 No. 143 (first-amended complaint).

20 ²⁷ See ECF No. 146 at 8.

21 ²⁸ See ECF No. 86 at 1 (noting that the “discovery cut-off date in this case was June 29, 2021”).

22 ²⁹ ECF No. 173 at 6–7. Indeed, the only reason ProDox moved to amend its complaint was
 because PDS refused to stipulate to ProDox dropping those claims and then vigorously fought
 ProDox’s attempt to drop them through amendment. See ECF No. 128 at 4; ECF No. 130; ECF
 No. 131.

23 ³⁰ *Healy Tibbitts Const. Co. v. Ins. Co. of N.A.*, 679 F.2d 803, 804 (9th Cir. 1982).

³¹ Fed. R. Civ. P. 8(c).

1 defendants to raise affirmative defenses at the summary-judgment stage “whether or not it was
 2 specifically pleaded as an affirmative defense, at least where no prejudice results to the
 3 plaintiff.”³² The plaintiff must “point to a tangible way in which it was prejudiced by the
 4 delay.”³³ “The key to determining the sufficiency of pleading an affirmative defense is whether
 5 it gives the plaintiff fair notice of the defense.”³⁴

6 ***A. PDS’s attempts to avoid a prejudice analysis fail.***

7 PDS first attempts to stop the court from conducting a prejudice analysis entirely,
 8 essentially arguing that because PDS pled the penalty defense in an amended answer in response
 9 to ProDox’s amended complaint, no further analysis is needed.³⁵ It cites FRCP 15(a)(3) to imply
 10 that PDS was required to file a response to the amended complaint.³⁶ It then declares that
 11 “plaintiff’s position that PDS waived an affirmative defense that it pled in its operative
 12 responsive pleading is so novel (to put it generously) that there appears to be no case law where a
 13 plaintiff has made this argument.”³⁷

14 Despite the conviction of its tone, PDS is just flat wrong. Even a brief search reveals that
 15 several courts in this circuit and throughout the country have evaluated whether and to what
 16 extent a defendant can raise affirmative defenses in amended answers responding to a plaintiff’s
 17 amended complaint. Most courts follow the “moderate approach” and hold “a defendant may

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 19 ³² *Healy Tibbitts*, 679 F.2d at 804; *Rivera v. Anaya*, 726 F.2d 564, 566 (9th Cir. 1984) (noting
 20 that the Ninth Circuit “liberalized the requirement that affirmative defenses be raised in a
 21 defendant’s initial pleading in” *Healy Tibbitts*).

22 ³³ *Id.* (quoting *Ledo Fin. Corp. v. Summers*, 122 F.3d 825, 827 (9th Cir. 1997)).

23 ³⁴ *Simmons v. Navajo Cnty, Ariz.*, 609 F.3d 1011, 1023 (9th Cir. 2010), *overruling on other*
grounds recognized by Whitall v. Munk, 2023 WL 4397949, at *1 (9th Cir. July 7, 2023).

³⁵ ECF No. 173 at 6.

³⁶ *Id.*

³⁷ *Id.* at 7.

1 file an amended answer without leave of court ‘only when the amended complaint changes the
 2 theory or scope of the case, and then, the breadth of the changes in the amended response must
 3 reflect the breadth of changes in the amended complaint.’”³⁸ Here, while ProDox’s amended
 4 complaint changed the scope of the case in the sense that it narrowed it, it did not change the
 5 breach-of-contract claim in any material way, and PDS’s addition of this affirmative defense did
 6 not respond to any new matter in ProDox’s complaint. So, under the moderate approach to
 7 amended answers, PDS should have moved for leave to add the defense but didn’t.

8 PDS seeks to shift the blame for this pleading snafu to ProDox, arguing that the onus was
 9 on ProDox to file a motion to strike this rogue defense and, because it didn’t, ProDox can’t now
 10 argue waiver.³⁹ PDS cites one California district-court case for the proposition that “[i]f a
 11 plaintiff objects to a defendant’s affirmative defense, it is proper for that plaintiff to bring a
 12 motion to strike the affirmative defense.”⁴⁰ But that case doesn’t hold that a motion to strike is
 13 the only method available to challenge a defendant’s rogue affirmative defense, nor does it stand
 14 for the proposition that the failure to move to strike a late-raised defense bars a waiver challenge.

16 ³⁸ *ImprimisRx, LLC v. OSRX, Inc.*, 2023 WL 2919318, at *2 (S.D. Cal. Apr. 12, 2023) (quoting
 17 *Coppola v. Smith*, 2015 WL 2127965, at *2 (E.D. Cal. May 6, 2015)); *see also, e.g., Natural-*
 18 *Immunogenics Corp. v. Newport Trial Grp.*, 2020 WL 5239856, at *5 (C.D. Cal. Aug. 3, 2020)
 19 (noting that district courts in the Ninth Circuit “generally utilize” the moderate approach);
 20 *Grainger v. Ensley*, 2023 WL 2602492, at *3 (D. Or. Feb. 10, 2023) (noting that other district
 21 courts generally hold that “a defendant may not plead new counterallegations or affirmative
 22 defenses as of right unless the plaintiff’s amendments changed the scope or theory of the case”
 and citing cases); *Seitz v. Envirotech Sys. Worldwide Inc.*, 2007 WL 1795678, at *2 (S.D. Tex.
 June 19, 2007) (noting that “most courts require leave to raise new allegations and defenses that
 go beyond responding to the new matters raised in the amended complaint” and citing cases);
Elite Ent., Inc. v. Khela Bros. Ent., 227 F.R.D. 444, 446 (E.D. Va. 2005) (same); *Synopsys, Inc.*
v. Magma Design Automation, 2005 WL 8153035, at *3 (N.D. Cal. Oct. 19, 2005) (same).

³⁹ ECF No. 173 at 6–7.

⁴⁰ *Id.* (quoting *Mformation Techs., Inc. v. Rsch. in Motion Ltd.*, 830 F. Supp. 2d 815, 825 (N.D. Cal. 2011)).

1 Plus FRCP 12(f)—the rule that governs motions to strike—expressly allows a court to “strike
2 from a pleading an insufficient defense” on its own; it need not wait for a plaintiff’s motion to do
3 so, and it can choose to consider untimely motions to strike.⁴¹

4 So I do not conclude that PDS’s affirmative defense is timely merely because it was
5 included in an amended answer filed in response to an amended complaint that didn’t change the
6 scope of ProDox’s breach-of-contract claim. Nor is ProDox’s failure to request pretrial that I
7 strike this defense fatal to its ability to argue waiver now. So to best comport with the Ninth
8 Circuit’s guidance on raising late affirmative defenses, and in the interest of justice, I consider
9 whether PDS’s delay in asserting the defense prejudices ProDox and I find that it does.

10 ***B. ProDox was prejudiced by PDS’s delay in pleading the unenforceable-penalty***
11 ***defense.***

12 ProDox contends that it will be prejudiced if PDS’s penalty defense is considered
13 because it lost the opportunity to request documents related to the financial statuses of the
14 companies in 2006 and depose PDS witnesses “who could have provided testimony regarding
15 the basis for the agreed upon liquidated damages amounts or who could have testified to the
16 financial value range for transactions at the time the parties agreed to the provision.”⁴² ProDox
17 also would have sought more financial records from PDS for the period between 2006 and 2020
18 “for the purpose of demonstrating that the amounts per violation in the liquidated damages
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21 ⁴¹ Fed. R. Civ. P. 12(f)(1); *see also Sprint Sols. Inc. v. Pac. Cellupage Inc.*, 2014 WL 12610204,
22 at *2 (C.D. Cal. Dec. 17, 2014); 5C Wright & Miller, Federal Practice & Procedure, Civil § 1380
23 (3d. ed. 2004) (“The authority given by the court by [Rule 12(f)] to strike an insufficient defense
‘on its own’ has been interpreted to allow the district court to consider untimely motions to strike
and to grant them if doing so seems proper.”).

⁴² ECF No. 172 at 7.

1 provision were fair and reasonable.”⁴³ ProDox bases these prejudice arguments on the
2 assumption that, to determine whether a liquidated-damages provision is an unenforceable
3 penalty, the court would need to look at the intent of the parties at the time of drafting the
4 provision rather than limit itself to the actual damages at the time of breach.⁴⁴

5 While the Supreme Court of Nevada has not clearly articulated whether intent at the time
6 of drafting is relevant to the penalty analysis, it has referenced intent when discussing whether
7 the parties believed that any actual damages resulting from a breach would be difficult to
8 ascertain when drafting.⁴⁵ Other judges in this district have interpreted Nevada’s unenforceable-
9 penalty defense to require an analysis of what the parties assumed at the time of drafting about
10 the amount of damages that may result from a breach.⁴⁶ And the United States Supreme Court
11 has generally stated that “the fact that the damages suffered are shown to be less than the
12 damages contracted for is not fatal. These provisions are to be judged as of the time of making
13 the contract.”⁴⁷

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16 ⁴³ *Id.*

17 ⁴⁴ *See id.* at 9.

18 ⁴⁵ *See Mason v. Fakhimi*, 865 P.2d 333, 335–36 (Nev. 1993) (upholding liquidated-damages
19 award that exceeded the actual loss sustained because it was not possible for the plaintiff “to
20 accurately determine what actual damages would be in the event of a breach” at the time of
drafting); *Tolboe v. Peccole*, 335 P.2d 77, 79 (Nev. 1959) (holding that liquidated-damages
award was enforceable “considering the subject matter of the agreement[] and all the facts and
circumstances under which the contract was made”).

21 ⁴⁶ *See Hubbard Bus. Plaza v. Lincoln Liberty Life Ins. Co.*, 649 F. Supp. 1310, 1315 (D. Nev.
1986) (citing *Silver Dollar Club v. Cosgriff Neon Co.*, 389 P.2d 923, 925 (Nev. 1964), for the
22 proposition that “[t]he intention of the parties is the overall inquiry”); *Silver Dollar Club*, 389
23 P.3d at 925 (noting that a defendant’s showing that the actual damages were smaller than the
amount stipulated “could be regarded as an indication that the amount named was *intended* as a
penalty”).

⁴⁷ *Priebe & Sons v. U.S.*, 332 U.S. 407, 412 (1947).

1 I need not determine at this stage whether the parties' intent at drafting is a relevant
2 consideration. What matters for our purposes is whether ProDox was prejudiced by not being
3 able to assert its relevance during discovery to respond to PDS's objections to ProDox's requests
4 for documents from 2006. The record establishes that ProDox consistently sought information
5 from PDS from 2006 through 2020, and PDS steadfastly refused to provide it, arguing that
6 anything that happened outside of the breach period (2017–2020) was irrelevant. Had ProDox
7 been armed with the knowledge that PDS would rely on the penalty defense, it would have been
8 able to press its arguments of that timeframe's relevance in motions to compel. Because PDS
9 waited until after the close of discovery to reveal that it would rely on that defense, PDS was
10 able to thwart ProDox's attempts to obtain discovery from 2006. So ProDox was prejudiced by
11 this late pleading.

12 PDS's insistence that ProDox was not surprised or prejudiced is based largely on the
13 assumption that the only information relevant to combat this penalty defense is whether the
14 liquidated-damages calculations are proportionate to the actual damages ProDox sustained from
15 the PDS's breaches.⁴⁸ And PDS maintains that because "evidence that [ProDox] suffered any
16 damages caused by the alleged breach is an essential element of [its] breach-of-contract claim on
17 which [ProDox] carries the burden of proof," ProDox should have sought that information
18 anyway and would have been able to overcome the defense had it been able to prove actual
19 damages.⁴⁹ There are several things wrong with this argument. First, as discussed *supra*,
20 information about financial expectations and party intent at the time of drafting may be relevant
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23 ⁴⁸ See ECF No. 173 at 8–9.

⁴⁹ *Id.* at 8.

1 to the validity of the penalty defense.⁵⁰ Second, while damages are a required element of a
 2 breach claim, a valid liquidated-damages provision can supply those damages. PDS offers no
 3 Nevada case holding that a robust showing of actual damages is required to enforce a liquidated-
 4 damages provision if the defendant doesn't challenge its enforceability, and in Nevada a
 5 liquidated-damages provision is prima facie valid unless challenged.⁵¹ In other states that
 6 similarly hold, courts do not require proof of actual damages absent that challenge.⁵² This makes
 7 sense, given that the purpose of a liquidated-damages clause is to contract away from the
 8 difficulties of proving actual damages. And the Supreme Court of Nevada has positively cited
 9 cases from other states endorsing the no-actual-damages-needed philosophy.⁵³

10 Nevada law also puts the burden of production *and* persuasion on the defendant to show
 11 that liquidated damages are disproportionate to actual damages. This structure lends further

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 13 ⁵⁰ Indeed, ProDox argued this during trial in response to PDS's many objections to any
 14 information concerning 2006, and I overruled those objections. ECF No. 169 at 26:14–27:6,
 15 30:18–23, 37:7–21 (ProDox's counsel explaining the relevance of Sparks's testimony concerning
 16 why ProDox "decided to settle a case where the parties agreed that a certain amount would be
 17 considered liquidated damages" and "should be entitled to testify as to what at the time, when he
 18 signed this agreement, what he considered to be a reasonable and fair amount to determine what
 19 would be considered liquidated damages based on what he perceived his harm would be").

20 ⁵¹ *Haromy v. Sawyer*, 654 P.2d 1022, 1023 (Nev. 1982).

21 ⁵² See e.g., *In re Bowles Sub Parcel A, LLC*, 792 F.3d 897, 901 (8th Cir. 2015) (interpreting
 22 Minnesota law and finding that "a contractual provision for liquidated damages can be enforced
 23 without proving actual damages" as long as "the amount so fixed is a reasonable forecast of just
 compensation for the harm that is caused by the breach" and the harm caused "is incapable or
 very difficult of accurate estimation"); *Slinski v. Bank of America, N.A.*, 981 F. Supp. 2d 19, 27
 (D.D.C. 2013) (interpreting District of Columbia law and finding that no actual damages need to
 be proven as of the date of breach if "under the circumstances and expectations of the parties
 existing at the time of execution it appears that the provision is a reasonable protection against
 uncertain future litigation").

⁵³ See *Mason*, 865 P.2d at 336 (holding in the slightly different context of real-estate contracts
 that "[t]he provision for earnest money in a contract, in the absence of an express provision to the
 contrary, will be interpreted as a provision for liquidated damages and enforced without actual
 proof of damages being required") (quoting *Bamberg v. Griffin*, 394 N.E.2d 910, 914 (Ill. App.
 Ct. 1979)).

1 support to the notion that it was PDS, not ProDox, who had to produce evidence of
 2 disproportionate actual damages to prove that the provision is a penalty.⁵⁴ ProDox thus would
 3 have had no reason to seek that information if it believed that its liquidated-damages provision
 4 would supply the damages calculation in this case.

5 Finally, ProDox did seek information about PDS's profits for the time of its breach, and
 6 PDS strenuously refused to provide it, arguing primarily that the information was irrelevant
 7 because the only damages ProDox could collect in this case stem from violations of the
 8 liquidated-damages clause. At a discovery hearing in 2021, PDS defended its refusal to turn
 9 over financial records of its sales by arguing that they were irrelevant because only the liquidated
 10 damages specified in the agreement mattered:

11 [T]here is a contract that governs the parties' legal relationship . . .
 12 and paragraph 5 says that [in the event of breach, ProDox is
 13 entitled to] \$2,500 per violation, and for the first-time violation
 \$15,000, which is really what this case is about. In other words,

14 ⁵⁴ *Silver Dollar Club*, 389 P.2d at 925 (noting that, "if [defendant] had introduced evidence
 15 showing that the actual damages were considerably smaller than the amount stipulated, this could
 16 be regarded as an indication that the amount named was intended as a penalty, but no such
 17 evidence was introduced" and citing McCormick on Damages § 157 (1935) for the proposition
 18 that "the defendant has the burden of proof (and doubtless this means the burden of first
 19 proceeding with evidence and also of finally persuading the judge) of the facts, such as
 20 disproportion, ease of estimating damages, or want of intent to pre-estimate, as he may count on
 21 to show that the stipulation is for a penalty"); *Loomis v. Lange Fin. Corp.*, 865 P.2d 1161, 1126
 22 (Nev. 1993) (finding that the defendant "has not borne its burden of showing that the amount of
 23 actual damages is disproportionate to the amount of damages recovered under the liquidated
 damages clause" and thus the plaintiffs are entitled to recover the "liquidated damages as
 provided for in the purchase agreement"). PDS argues that only the burden of persuasion rests
 with the defendant. ECF No. 173 at 18. It cites the Supreme Court of Nevada's
 acknowledgement in *Haromy*, 654 P.2d at 1023, that "the challenging party must persuade the
 court" that a liquidated-damages award is disproportionate to the plaintiff's actual damages. It
 also cites to *Prothera v. Ye*, 2020 WL 3073345, at *6 (D. Nev. June 10, 2020), an unpublished,
 non-binding opinion from another judge in this district, holding without analysis that the
 "applicable standard does not require [the] [d]efendant to present any evidence." But *Haromy*
 doesn't clarify the burden of production for this defense, and *Prothera* doesn't address the
 binding Nevada precedent cited *supra*, which clearly states that both burdens fall on the
 defendant.

1 we need look no further than the agreement itself, the parties
2 contract[ed] what . . . the damages would be for a violation. There
3 is simply . . . no reason to go on a fishing expedition into my
4 client's highly confidential financial records of a competitor when
5 it has no legal significance to this case. In other words, they're not
6 getting disgorgement of profits, they're not getting actual damages.
7 They are bound by the contract, and that's the damages they
8 contracted for.⁵⁵

9 PDS then went on to rely on a case noting that a court need not go further than a punitive-
10 damages clause in a contract to determine damages, arguing that the same holds true for
11 ProDox's liquidated-damages provision.⁵⁶ It would be inequitable to now determine that
12 ProDox has to overcome a defense that PDS so clearly did not advance earlier in the litigation,
13 and particularly after PDS relied on the validity of the provision to avoid providing evidence of
14 actual damages in the first place.

15 PDS relatedly argues that it "has consistently maintained throughout the course of
16 litigation that [ProDox] suffered no damages" and thus put ProDox on notice that it should be
17 prepared to prove actual damages.⁵⁷ But PDS once again overstates the stance it's taken in this
18 litigation. What PDS has consistently maintained is that, when it cured one violation of the
19 agreement by removing the ProDoc mark from its website, "there was therefore no 'violation' to
20 trigger liquidated damages" under the settlement agreement.⁵⁸ But arguing that the language of

21 ⁵⁵ Audio recording of November 16, 2021, hearing before Magistrate Judge Koppe, 10:19:33
22 AM – 10:20:39 AM. *See also* ECF No. 52 at 38 (PDS defending its refusal to turn over financial
23 records because "even if [PDS] were in violation of the agreement, as [ProDox] alleges in the
24 complaint the remedy provided under the agreement is \$15,000 in the case of a first violation"
25 and citing the liquidated-damages provision), 44 (noting its position that "the only damages
26 stemming from this alleged breach are \$15,000 in liquidated damages" to argue that ProDox was
27 not entitled to discovery of PDS's customer lists or financial records).

28 ⁵⁶ November 16, 2021, audio recording at 10:20:41–10:21:05.

29 ⁵⁷ ECF No. 173 at 8.

30 ⁵⁸ *Id.*

1 the notice-and-cure provision in the contract negates the ability to collect liquidated damages is
 2 materially different from claiming that ProDox can't prove actual damages or that the liquidated-
 3 damages provision itself is void. PDS's attempt to equate those defenses is disingenuous at best,
 4 and PDS's notice-and-cure arguments didn't give ProDox fair notice of its penalty defense.

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 6 ***C. PDS's argument that it didn't know it needed to raise the defense until ProDox filed its summary-judgment motion is unconvincing.***

7 PDS next blames its late assertion of the unenforceable-penalty defense on ProDox,
 8 stating that "as soon as [ProDox] made clear for the first time in its summary-judgment motion
 9 that it was claiming over 600 'violations' under the liquidated-damages clause, PDS asserted the
 10 penalty defense and argued it strenuously for the remainder of the litigation."⁵⁹ But ProDox's
 11 damages theory was not a summary-judgment surprise. ProDox consistently maintained since it
 12 sent PDS a demand letter in 2020 that it "consider[ed] any instance where PDS has solicited and
 13 obtained a customer outside of California as a separate violation of the agreement."⁶⁰ During
 14 discovery, the parties argued over what evidence of PDS's business dealings outside of
 15 California ProDox could discover, and ProDox again stated its position that "every single one
 16 of" the sales PDS made outside of California under the ProDoc name "was a violation of the
 17 agreement that the liquidated-damages clause anticipated."⁶¹ The magistrate judge ultimately
 18 found that PDS was required to send a list of its customers, with a tally of each customer's

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⁵⁹ *Id.* at 8–9.

21 ⁶⁰ Pl's Trial Ex. 7.

22 ⁶¹ November 16, 2021, audio recording at 10:24:35–10:24:42; 10:25:10–10:25:36 (arguing that
 23 the liquidated-damages provision is concerned with the number of times PDS violated the
 agreement, not the amount PDS made on each violation, explaining that "if [PDS] sold . . . 100
 jobs for a particular client . . . that's 100 violations of the agreement . . . and we are entitled to
 \$2,500 times the number of violations").

1 unique transactions, for ProDox to use when calculating the number of violations under the
2 liquidated-damages clause.⁶² And at PDS’s CEO Kyle Lum’s deposition, ProDox went through
3 that list and had Lum identify every client that PDS serviced outside of California.⁶³ It is thus
4 uncontestable that PDS had been on notice of the magnitude of damages that ProDox was going
5 to request long before the summary-judgment phase of this case.

6 To be sure, PDS made many attempts to downplay that magnitude. At several points in
7 the litigation, PDS ignored the allegations in the complaint and the demand letter to contend that
8 the “only issue in this . . . case is whether [ProDox] is entitled to damages for . . . two perceived
9 violations”⁶⁴ and refused to accept ProDox’s repeated insistence that its case was not so limited.
10 But ProDox did not hide the method upon which it intended to calculate damages or that it
11 considered each separate transaction to be a violation of the agreement. So I reject PDS’s notion
12 that ProDox’s summary-judgment request for \$1.5 million dollars for 600 unique violations
13 alerted PDS “for the first time” to the need to assert its unenforceable-penalty defense.

14 In short, PDS’s failure to raise its penalty defense timely materially prejudiced ProDox
15 because it prevented ProDox from obtaining discovery about actual damages and the
16 circumstances as they were when the parties signed the 2006 settlement agreement. Had ProDox
17 known that it was required to defend the validity of the liquidated-damages clause, it may have
18 been able to persuade the court that it was entitled to relevant discovery that PDS otherwise
19 refused to provide. I thus find that ProDox was prejudiced by PDS’s failure to timely raise its

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 ⁶² ECF No. 64 at 6; November 16, 2021, audio recording at 10:34:53–10:35:14.

23 ⁶³ See ECF No. 122 at 15 (discussing Lum’s deposition testimony).

⁶⁴ See ECF No. 52 at 36 (discovery-dispute stipulation).

1 unenforceable-penalty defense, so PDS cannot rely on this defense to invalidate the liquidated-
2 damages provision now.

3 **II. ProDox proved that it is entitled to \$217,500 in liquidated damages.**

4 Having determined that the liquidated-damages clause is enforceable, I move to an
5 analysis of what liquidated damages were proven at trial. ProDox rested its case without
6 introducing any evidence of damages stemming from PDS's violation of the settlement
7 agreement to support a damages calculation under the liquidated-damages clause.⁶⁵ ProDox then
8 moved for judgment under FRCP 52(c) because PDS could not show that the liquidated-damages
9 provision was unenforceable.⁶⁶ In response, PDS argued that ProDox's failure to present any
10 evidence of actual damages rendered any liquidated-damages award disproportionate to
11 ProDox's proven actual damages of zero dollars. ProDox's attorney explained that he
12 interpreted my summary-judgment order to mean that ProDox had already proven 309 violations
13 of the agreement, so it didn't need to adduce any further evidence than that.⁶⁷ But, as I explained
14 at trial, my summary-judgment order very clearly concluded that genuine issues of material fact
15 prevented me from making any damages findings, and ProDox's interpretation that it did was an
16 unreasonable interpretation of the order.⁶⁸ Nevertheless, I ultimately gave ProDox 20 minutes to
17 examine PDS's CEO Kyle Lum so it could provide evidence of the number of transactions that

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22 ⁶⁵ See ECF No. 169 at 82 (resting case after Sparks's testimony).

23 ⁶⁶ *Id.* at 83–95.

⁶⁷ *Id.* at 113:14–22.

⁶⁸ *Id.* at 115:4–116:3, 126:21–22.

1 PDS made servicing customers outside of California in violation of the agreement.⁶⁹ And I
2 reserved until now the decision on whether I would consider that late-introduced testimony.⁷⁰

3
4 ***A. The court accepts and considers the evidence presented during ProDox's
reopened case.***

5 The decision to allow a party to reopen its case after it rests is within the sound discretion
6 of the trial judge.⁷¹ PDS asks that I exercise that discretion to disregard Lum's testimony
7 because ProDox's interpretation of my summary-judgment order was unreasonable. The
8 erroneous interpretation was not malicious, nor does it indicate a bad-faith attempt to mislead the
9 court or the defense. So in the interest of justice, I exercise my discretion to consider Lum's late-
10 introduced testimony.

11 But I do not grant ProDox's request that I also consider evidence from Lum's deposition,
12 provided long ago as an exhibit to ProDox's summary-judgment motion, to the extent that it
13 contradicts what Lum said at trial about which clients he serviced outside of California. But
14 ProDox didn't bring Lum's deposition transcript to trial, and it had the opportunity to question
15 Lum on the stand and elicit his testimony. To the extent that Lum's trial testimony was
16 inconsistent with his deposition testimony, ProDox's remedy was to impeach Lum with his
17 original deposition transcript. But because ProDox didn't bring that transcript to trial,⁷² that
18 couldn't happen. So the only Lum testimony that I consider is his trial testimony.

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⁶⁹ *Id.* at 125:8–25.

21 ⁷⁰ *Id.* at 125:9–11.

22 ⁷¹ See *Zenith Radio Corp. v. Hazeltine Rsch., Inc.*, 401 U.S. 321, 332 (1971); *Merritt-Chapman*
23 *& Scott Corp v. Frazier*, 289 F.2d 849, 855 (9th Cir. 1961) (“Whether a case should be reopened
for new testimony is peculiarly a matter within the discretion of the trial judge.”) (cleaned up).

⁷² ECF No. 169 at 143:17–145:6 (wherein the court notes, “there are procedures that we use
when we do this at trial, and no one has complied with them. And this is about the ninth thing

1 ***B. Lum’s trial testimony supports an award of \$217,500 in liquidated damages.***

2 Lum’s testimony established 81 violations of the settlement agreement. ProDox elicited
3 testimony from Lum showing that the company serviced three clients outside of California,
4 which was prohibited by the agreement: ESIS; Hewson & Van Hellemont; and Rissman, Barrett,
5 Hurt, Donahue, McClain, & Magnan, P.A.⁷³ Lum also confirmed that each transaction listed for
6 each of those clients on ProDox’s exhibit list of transactions that PDS made between 2017 and
7 2020 represents “a transaction or an invoice for services done for . . . these firms that were
8 outside [of] California for work [done] outside [of] California.”⁷⁴ That transaction list shows
9 that PDS provided services for ESIS twice, Hewson 54 times, and Rissman 25 times.⁷⁵ This
10 evidence was uncontested.

11 The liquidated-damages provision in the 2006 settlement agreement is prima facie valid
12 and enforceable.⁷⁶ That provision obligates PDS to pay ProDox \$15,000 for the first violation
13 plus \$2,500 for each subsequent one.⁷⁷ Based on Lum’s testimony at trial and PDS’s concession
14 that it violated the agreement when it used the ProDoc mark,⁷⁸ I conclude that PDS violated the

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16 today that is noncompliant with trial procedures. . . . [W]hen you come to trial, you have to have
17 . . . the depositions that you plan to impeach with.”).

18 ⁷³ ECF No. 169 at 141:10–13 (ESIS), 142:22–23 (Hewson & Van Hellemont); 143:5–6
19 (Rissman); 146: 5–8 (confirming that “Rissman, Hewson & Van Hellemont, [and] ESIS are the
20 only firms that were serviced outside of California”). PDS argues that, because Lum first stated
21 that Hewson may have been serviced from within California, I should disregard the conflicting
22 testimony. But ProDox rehabilitated Lum’s testimony when it asked Lum to confirm that the
23 three companies were serviced outside of California.

⁷⁴ *Id.* at 148:1–8.

⁷⁵ Pl’s Trial Ex. 10.

⁷⁶ *See Haromy*, 654 P.2d at 1023.

⁷⁷ Pl’s Trial Ex. 1 at 4.

⁷⁸ PDS has conceded this breach since the inception of this trial. *See* ECF No. 122 at 4–5
(discussing PDS’s cure of the violation in 2020).


1 2006 settlement agreement 82 unique times. The first violation occurred when PDS used the
2 ProDoc name on its website from 2017–2020,⁷⁹ so, \$15,000 is awarded for that first violation.
3 And \$202,500 is awarded for the remaining 81 violations—a separate violation for each sale
4 serviced outside of California during the relevant time period—at \$2,500 each. I thus award
5 ProDox a total of \$217,500 in liquidated damages.

6 ProDox also seeks attorneys’ fees that it contends it is entitled to under the settlement
7 agreement, but it does not provide the evidence required under FRCP 54 and this district’s local
8 rules to permit me to evaluate the merits of that motion. So I deny that request without prejudice
9 to ProDox’s ability to file a properly supported attorneys’ fees motion.

10 **Conclusion**

11 Based on these findings of fact and conclusions of law, IT IS HEREBY ORDERED,
12 ADJUDGED, AND DECREED THAT **Plaintiff ProDox, LLC is entitled to judgment in its**
13 **favor on its sole claim for breach of contract in the amount of \$217,500.00.**

14 This order leaves no claims pending, so **the Clerk of Court is directed to ENTER**
15 **FINAL JUDGMENT in favor of the plaintiff and against the defendant and CLOSE THIS**
16 **CASE.**

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19 U.S. District Judge Jennifer A. Dorsey
20 March 19, 2024
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⁷⁹ See *id.*